

May 09, 2022

Gupta Solvent Private Limited: Rating upgraded to [ICRA]BB+(Stable); removed from Issuer Not Cooperating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based/Cash credit	6.00	6.00	[ICRA]BB+(Stable); upgraded from [ICRA]B+(Stable); rating removed from the Issuer Not Cooperating category
Long Term-Fund Based-Term Loan	3.50	3.50	[ICRA]BB+(Stable); upgraded from [ICRA]B+(Stable); rating removed from the Issuer Not Cooperating category
Total	9.50	9.50	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade considers the healthy scale up by Gupta Solvents Private Limited's (GSPL) in the last five years as the operating income grew at a CAGR of ~80% to Rs. 750 crore in FY2022 from Rs. 40.3 crore in FY2017 on the back of higher volumes and realisations. ICRA also draws comfort from the extensive experience of GSPL's promoters in the edible oil industry and GSPL's comfortable capital structure and satisfactory coverage metrics mainly due to controlled working capital cycle and debt levels.

The rating, however, remains constrained by GSPL's thin profit margins due to limited value addition and intense competition. Additionally, the company's revenues and profitability remain vulnerable to the price fluctuations of the input and its substitutes, along with regulatory changes.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that GSPL's credit profile will continue to remain stable, backed by steady revenue growth, comfortable coverage indicators and low working capital intensity.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in solvent extraction industry – GSPL's promoters have more than two decades of experience in the solvent extraction industry which helped in maintaining a healthy relationship with suppliers and customers over the years. This has also ensured ease in procuring raw material and getting repeat business from the existing clientele. The Group concerns are engaged in the trading, crushing, processing and packaging of mustard, soya and other oils and cakes, and cotton seed oil and cake. The Group is present in Madhya Pradesh, Bihar and Jharkhand through its brand names Tiger, Ghoonghat and Balak.

Healthy revenue growth with improved capacity utilisations – GSPL started an oil refinery in FY2017 and solvent extraction in FY2018. In the last five years, the company's operating income (OI) increased at a CAGR of 111% to Rs. 803.2 crore in FY2021 from Rs. 40.3 crore in FY2017 primarily on the back of higher volumes and realisations. The revenues declined to Rs. 750 crore in FY2022 mainly on account of lower trading and other revenues. The capacity utilisation remains healthy with the solvent extraction plant operating at 83-85% capacity in the last three years. The capacity utilisation of the oil refinery ranges

from 50% to 85%, based on demand. Given the healthy capacity utilisation, the management is in the process of expanding (doubling) the capacity of the solvent extraction plant.

Comfortable capital structure and debt protection metrics – The company’s debt profile has been historically dominated by working capital loans followed by minimal unsecured loans. Given the controlled working capital cycle and debt levels, the capital structure remained comfortable with a gearing of 0.4 times as on March 31, 2021 (0.8 times as on March 31, 2020). Low debt levels led to comfortable coverage indicators with interest coverage of 24.3 times in FY2021 and 22.8 times in FY2022.

Credit challenges

Low profit margins metrics due to low value addition in edible oil extraction business – GSPL’s operating profit margin (OPM) remains low, given the limited value-added nature of its operations. The same primarily remains a function of the price spread between soya/mustard derivatives (refined oil and DOC) and input (soya bean seeds/mustard). The company’s profit margins have remained range bound at 1.5% to 2% in the last five years. In line with the OPM, the net margins have also remained thin.

Volatility in raw material prices and regulatory changes – The company remains vulnerable to the availability and price movements of soya bean/mustard seeds, which is an agro commodity. Also, regulatory changes like the import duty structure and minimum support price amendments have a bearing on the profitability of solvent extraction units. Further, price movements and demand of other oilseed products influence the company’s revenue growth and profitability.

Stiff competition in solvent extraction and edible oil industry – The edible oil industry in India is fragmented and characterised by intense competition with many units operating in the field due to the low entry barriers in the business. The same limits the pricing power and, hence its operating profitability.

Liquidity position: Adequate

GSPL’s liquidity position is adequate with cushion available in working capital limits. The average fund-based limit utilisation was moderate at 35% in the last 12 months ended March 2022. The expected net cash accruals are expected to be sufficient to meet the debt repayment obligation.

Rating sensitivities

Positive factors – ICRA could upgrade GSPL’s rating if there is a sustained improvement in the scale and profitability coupled with an improvement in the liquidity position.

Negative factors – Pressure on the company’s rating could arise from any notable decline in its profitability, or if any deterioration in the working capital cycle weakens the liquidity and key credit metrics. An interest coverage of less than 2.5 times on a sustained basis could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA Methodology on Edible Oil industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Gupta Solvent Private Limited (GSPL), incorporated in 2007, commenced commercial operations from July 2016. It is involved in the refining of edible and solvent extraction. The company has a solvent extraction unit with a production capacity of 1,20,000 metric tonnes per annum (MTPA) and a refining capacity of 60,000 MTPA capacity at Morena, Madhya Pradesh.

Key financial indicators

VHL	FY2021	FY2022 (P)
Operating Income (Rs. crore)	803.2	750.0
PAT (Rs. crore)	11.0	10.1
OPBDIT/OI (%)	2.1%	1.7%
PAT/OI (%)	1.4%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.1
Total Debt/OPBDIT (times)	0.8	1.4
Interest Coverage (times)	24.3	22.8
DSCR (times)	4.7	10.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year), (P)-Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 09, 2022	April 21, 2021	-	January 22, 2020
1	Cash credit	Long-term	6.00	-	[ICRA]BB+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]B+ (Stable); ISSUER NOT COOPERATING
2	Term Loan	Long-term	3.50	0.00*	[ICRA]BB+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]B+ (Stable); ISSUER NOT COOPERATING

*not disbursed till March 31, 2021

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker's name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	6.00	[ICRA]BB+ (Stable)
NA	Term Loan	FY2022	NA	FY2030	3.50	[ICRA]BB+ (Stable)

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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